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Financial Aspects of Global Climate Change

Chairman Faleomavaega, Ranking Member Manzullo, and members of the Subcommittee on Asia, the Pacific and the Global Environment, thank you for the opportunity to testify today. My name is Jonathan Pershing, and I am the Deputy Special Envoy for Climate Change, in which capacity I serve as the head of the U.S. delegation in negotiations at the officials level of the UN Framework Convention on Climate Change. I very much appreciate your holding this hearing, and your interest in this critical matter.

Addressing the climate challenge

Over the course of the past several decades, the world has been increasingly focused on the problem of climate change. While we in the U.S. continue to debate the importance of this issue and what kinds of policy approaches we will take, the rest of the world has decided – and has consistently ranked it as one of its highest priorities. The rationale is straightforward: the issue is likely to affect how the vast majority of the world lives. There is broad agreement that, left unchecked, climate change will lead to significant population displacement from sea level rise, declines in global food supply (particularly in the most vulnerable countries of Sub-Saharan Africa and Southeast Asia), massive losses in species diversity, and major shortages of water – and this last is not only in the developing world, but very much a problem we will face here in the U.S.

As is frequently noted, the climate change problem is global; it is not one that we or any other single country can solve alone. Even the world's two largest emitters of greenhouse gases – the U.S. and China – combined account for less than half the global total. It is for this reason that the world has turned to the development of international instruments for a solution.

There have been a series of attempts to reach agreements over the past 20 years. Most notably, in 1992, under the auspices of the United Nations, the world adopted the UN Framework Convention on Climate Change, an agreement subsequently ratified by the U.S. with the advice and consent of the Senate. That agreement calls upon all countries to take policies and measures to mitigate and adapt to climate change. It also calls upon wealthier countries to provide assistance to developing nations to help them implement such policies, though it left the specifics of how such assistance would be provided to be agreed at a later date.

In the two decades since we negotiated the Convention, the scope and scale of the climate problem has become increasingly clear. We must shift to low carbon economies – and we need to get started very quickly if we are to avoid tremendous damages.

While the past decades have given us a clearer understanding of the problem and possible solutions, we have also gained a better appreciation of the needs and capacities of the developing countries, particularly the most vulnerable and poorest nations, to take action. We know that a great many developing countries need assistance to change their development trajectories and to adapt to the unavoidable impacts of climate change.

This leads to the conclusion that the global community will need to rapidly and substantially ramp up financing, technical and technological assistance. Otherwise, the world will not be able to minimize global emissions or adapt to the ever increasing damages associated with climate change.

This is not a task that can be accomplished simply through foreign assistance or even foreign private investment. It will require domestic actions from all nations – a combined effort to change national policies in sectors as diverse as forestry and energy, and manage impacts and consequences as varied as species loss and sea level rise.

The Administration believes that a fundamental aspect of meeting the climate challenge is to scale up assistance for mitigation and adaptation actions in developing countries in the context of transparency and accountability regarding the use of funds.

As we work with developing countries to step up their efforts to adapt and reduce emissions, we hear many argue that tackling climate change will impede countries' capacity to develop and grow. This is a false choice. Development and the environment must go hand in hand and it is clear that a low-carbon future is the only sustainable option. We must manage our policy efforts to choose a sustainable path and provide assistance to the developing nations of the world to allow them their own sustainable trajectory.

Finance in the context of the negotiations and the Accord

Finance has been a pillar of the international negotiations for a post 2012 climate regime because of its inherently important role in addressing the climate challenge – nowhere more so than in Copenhagen at the climate summit last December.

At that session, the international community took a meaningful and unprecedented step forward in our collective effort to fight climate change with the negotiation of the Copenhagen Accord. The Accord embodies key elements that are essential to a long term solution to the climate change challenge.

First, all major economies – developed and developing – committed to take actions to limit their emissions, listed those actions in appendices to the agreement, and committed to implement those actions in an internationally transparent manner. In total, some 136 countries have associated themselves with the Accord, and more than 75 have also inscribed their domestic targets and/or actions.

Second, the agreement included provisions for significant new financial assistance. These far-reaching provisions on funding are required so that developing countries are given the kind of support they need for mitigation and adaptation, including assistance in acquiring and using technology as well as in avoiding deforestation.

Currently, negotiations are under way to move from the very brief language of the Accord (it is a mere 12 paragraphs) to a more operational set of implementing decisions. We hope that the next Conference of the Parties to the UNFCCC in Cancun this December will preserve the basic political agreement from Copenhagen: domestically derived mitigation commitments with robust transparency provisions on the one hand and significant financing commitments on the other.

Finance elements of the Copenhagen Accord

Let me describe the three main finance issues flowing from the Copenhagen Accord and what we are doing to implement them:

- First, the developed countries committed to provide short-term "fast start" finance approaching $30 billion in 2010-12 to support adaptation and mitigation in developing countries;
- Second, we undertook a global goal of mobilizing long-term public and private finance of $100 billion a year by 2020 in the context of meaningful action on mitigation and transparency in implementation; and
- Third, we decided to establish a new Copenhagen Green Climate Fund to channel a portion of this new scaled-up finance.

Fast start finance

Fast start finance represents a significant increase in international climate finance for developing countries, particularly the most vulnerable and least developed. It is important to emphasize that "fast start" is not an institution or a pooled fund, but rather relies on existing programs and institutions, such as the Climate Investment Funds, the Global Environment Facility, and bilateral programs to deliver these funds as quickly as possible.

In the short time since Copenhagen, developed countries have made significant strides in increasing budgetary allocations to climate finance. We are working together to promote the balanced disbursement of these resources to mitigation and adaptation, as the Accord calls for, to ensure support for thematic areas such as Reducing Emissions from Deforestation and Forest Degradation (REDD+), and to prioritize adaptation funding for the most vulnerable developing countries.

In expectation that we would need substantial new resources to get an agreement, the Administration proposed to triple international climate finance from 2009 to 2010. Congress appropriated $1.3 billion for 2010 including both the core climate budget and programs with strong climate co-benefits. The President requested an additional increase, to over $1.9 billion for Fiscal Year (FY) 2011 in further support of our fast start activities. We are now in the midst of preparing for FY 2012. As part of our overall fast start contribution, the Administration has pledged to provide $1 billion for REDD+.

It is vitally important for our overall climate diplomacy goals – and for the credibility of the Copenhagen Accord – that the U.S. make a strong contribution to fast start finance. The President's FY 2011 request was designed to put us on track to meet our fair share of the fast start commitment, and we strongly urge the members of this subcommittee to support this request in full.

While the scale of our contribution is critical, it is no less important that we use our money to the best effect. To this end, we are targeting our resources to help address the most urgent and immediate needs of the most vulnerable developing countries and to help developing countries lay the groundwork for long-term, low-emission development.

We have divided our contribution among multilateral initiatives and institutions as well as bilateral programs and activities. We think the balance provides us with maximum value. On the multilateral side, we leverage the contributions of the global community to multiply our financing by a factor of ten or more and help shape these international institutional programs. On the bilateral side, we are targeting key allies, promoting specific initiatives that build on lengthy relationships between the U.S. and host countries, and focusing on specific activities that we think will generate the most value in multiple policy arenas, from food and climate, to forests and climate, to security and climate.

In her testimony, Under Secretary Brainard has described U.S. participation in multilateral climate funds. Let me briefly outline some of the activities on the State and USAID side of the account. In 2010, we are delivering $30 million for the Least Developed Countries Fund, $20 million for the Special Climate Change Fund, and $10 million for the Forest Carbon Partnership Facility. Nearly two-thirds of U.S. bilateral adaptation funding in 2010-11 is focused on Small Island Developing States (SIDS), Least Developed Countries, and Africa. For example,

- We are stepping up our assistance to Indonesia and the countries of the Amazon and Congo basins to protect those critical tropical forest systems that act as carbon sinks for the world.
- We will help countries like India, Pakistan, Haiti, the Philippines, and Kenya increase energy production from renewable sources and make more efficient use of existing energy sources.
- We are increasing bilateral adaptation programming for vulnerable SIDS in the South Pacific and the Caribbean.

<u>Long-term finance</u>

Beyond short-term financing, the Copenhagen Accord also contains a long-term objective, in the context of meaningful actions and transparency on implementation, of mobilizing $100 billion a year in public and private resources by 2020 to address the needs of developing countries in the context of meaningful action on mitigation and transparency of implementation.

The international community has already started tackling this issue since Copenhagen. The UN Secretary-General, taking his cue from the Copenhagen Accord, created a High Level Advisory Group on Climate Change Financing. This group assembles senior finance officials and top private sector experts and thinkers to analyze the combination of financial sources that could be drawn upon to meet the $100 billion goal. Larry Summers, director of the National Economic Council, serves as the U.S. representative on this panel, supported by the Treasury Department. The group will present its report at the end of October, in time for the 16th Conference of the Parties (COP-16) of the United Nations Framework Convention on Climate Change (UNFCCC), meeting in Cancun late this year.

I would like to emphasize several points with respect to the longer term goal. First, the sums, while very large, need to be understood in the context of the anticipated global expenditures to move to a clean, climate friendly future. According to a recent analysis by the International Energy Agency, the incremental cost to keep emissions at a level that would prevent global temperatures from rising more than two degrees Celsius is $10 trillion between now and the year 2030. The vast majority of that will need to come from countries' own public and private finances. The commitment to mobilize $100 billion must therefore be seen for what it is – a catalytic effort to help jump-start the world on the pathway to a cleaner economy, but quite small share of the total effort.

The second point is that the finance we are speaking of is to be a combination of public and private financing – and is anticipated to come from all countries around the world. Thus, it will include money not only from appropriated funds for USAID and other countries' development agencies, but also private investment that can be leveraged – profitably – with new policies. But we must begin now to consider how we will meet the need for substantially ramped up global support.

Copenhagen Green Climate Fund

Beyond the question of short-term and long-term resources, the Accord also addresses the question of how new financing will be delivered. As one element of the agreement, leaders decided to establish a new multilateral fund – the Green Climate Fund – as an "operating entity" of the financial mechanism of the UNFCCC. This means the fund would operate with an independent board, but would take political guidance on its program priorities from the Conference of the Parties.

The UNFCCC already has one financial operating entity, the Global Environment Facility (GEF), to which the US is a donor. The idea is not to replace the GEF, but rather to complement it with another funding mechanism that would be designed to address different kinds of funding needs. Whereas the GEF might focus more on capacity-building, the new fund could concentrate on financing large-scale mitigation and adaptation investments.

The new fund could serve as the keystone of the multilateral climate finance architecture. However, it would not be the only way developing countries could access climate finance, given the continuing role of the GEF and other multilateral channels as well as our vital bilateral climate assistance programs.

Conclusion

In closing, let me reiterate a few key points. The U.S. – and the world – must act quickly and aggressively to curb our emissions if we are to avoid the most damaging effects of climate change. A key element of this will be robust action at home. The United States has contributed more emissions to the atmosphere than any other country, and on a per capita basis, we are surpassed by very few others.

The world pays great attention to what we do and needs our leadership to solve this challenge, and our actions will bring enormous opportunities – for jobs, for trade, and for a better environment. We will need a combination of legislation, regulation and American ingenuity and investment – and we need to move quickly. With your support, I am confident we can do so.

We can and should assist the world's poorest and most vulnerable people to adapt to the effects of climate change and help support developing countries in developing low emission and sustainable pathways that are resilient to changing climate.

There will be serious consequences to the U.S. if we do not act. Inaction will affect our ability to achieve our larger diplomatic goals, as countries will point to the U.S. as forestalling progress on a global solution to climate change, and it will have a strong impact in terms of our ability to lead the world in generating green economic growth and technological innovation.

Conversely, if we do act, there are considerable benefits to the U.S. in terms of a more robust, stable and sustainable domestic and international environment and economy.

We do not see this as a choice, but as an opportunity and a responsibility, and we look forward to working with you to accomplish our task.

Thank you, Mr. Chairman. I look forward to answering any questions that you and the members of the committee might have.